

Tip Off Sparks Investigation into Million-dollar Corruption at Auckland Transport

Background

Five Year Fraud that Impacted a Whole Team

An external supplier paid bribes to public officials to secure roading contracts. The contracts were secured after a senior manager set up and corruptly exerted influence over the contract selection process. This gave the supplier an unfair advantage and ensured they received a number of high-value contracts.

To pay the bribes, the supplier made it appear as if they employed the senior manager as a consultant, but he did not actually do any work for the supplier. The senior manager did not declare this so-called employment as a conflict of interest.

The corrupt behaviour also involved paying separate bribes to the staff who approved invoices, allowing the corruption to continue undetected.

The bribes included:

- ▶ money
- ▶ international and domestic holidays
- ▶ electronics, including mobile phones and iPads
- ▶ fine dining experiences

The public officials failed to declare a conflict of interest and failed to declare these gifts, in breach of their employer's policies.

Team Culture Helped to Rationalise the Fraud

Other team members benefitted from the corrupt behaviour, with regular meals paid for by the supplier and not declared as gifts. The participants attempted to rationalise these behaviours by saying that the giving of gifts was standard practice in client servicing and that the received gifts were appropriate, given the size of the contracts awarded. This rationalisation helped to embed corrupt behaviours as part of the team's culture.

A Red Flag and an Anonymous Tip Prompted the Organisation to Contact the Serious Fraud Office

The organisation underwent management changes which led to an internal audit of the roading team's budget and accounts. A new manager raised a red flag that all the roading projects had come in exactly on budget and the work was largely allocated to one supplier which was unusual.

Around the same time, an employee raised suspicions through anonymous emails. An investigation, led by the Risk and Assurance Team and a professional services firm, identified consistent deceptive behaviours. These included failing to follow the gift register policy, using a personal phone instead of the work issued phone to conduct business, and intentionally raising purchase orders that fell just short of managerial approval thresholds. This behaviour enabled the fraud and corruption to continue for over five years.

The case was referred to the Serious Fraud Office. Two of the offenders went to prison and another received home detention. Six other employees were dismissed from the agency for breaking gift and inducement rules.

Fraud Prevention Observations

Impacts	<ul style="list-style-type: none">▶ The detected financial loss was over \$1 million.▶ The organisation diverted \$2.5 million to pay for investigation costs.▶ Over 1,000 employee hours were taken up during the investigation. The investigation involved 220 employees.▶ The organisation reported an increase in the number of complaints and Local Government Official Information and Meetings Act requests. This indicated that members of the public believed that corrupt behaviours were embedded in the organisation.▶ The supplier's firm gained an unfair competitive advantage, growing from a small firm struggling to compete in the market, to making annual profits of over \$3 million a year.
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Case Study

<p>Fraudster Personas</p>	<ul style="list-style-type: none">▶ The Corruptor - the public employees misused their positions of power to benefit themselves through bribes and extravagant gifts.▶ The Organised – the groups operated in a planned and sophisticated manner allowing corrupt payments to be made for a period of five years. By involving others in the receipt of benefits they were able to create conditions for their corruption to continue.
<p>Red Flags</p>	<ul style="list-style-type: none">▶ The senior manager was living a lifestyle beyond his means.▶ The public officials (and their team) received numerous undeclared gifts and hospitality.▶ The team culture was very closed, which discouraged scrutiny or speaking up.▶ A disproportionate amount of work was being given to a single small supplier.▶ The roading contracts were regularly completed exactly to budget, which was unusual for the industry.
<p>Effective Countermeasures</p>	<ul style="list-style-type: none">▶ The case highlights the need for effective countermeasures across an organisation. This begins with building a positive workplace culture. The case was detected, in part, because an individual had suspicions and was empowered to speak up, having consulted the relevant policy and using the tip-off line.▶ Another effective countermeasure would be quality assurance checks to ensure processes are being followed correctly and audits of contracting processes are being conducted.
<p>Mitigations and Responses</p>	<ul style="list-style-type: none">▶ The organisation implemented stronger and more regular controls over registering and managing conflicts of interest. It has also employed a dedicated conflicts of interest resource.▶ Conflicts of interest declarations are required at several different times and are randomly reviewed. Having employees declare interests allows for actual, potential, and

	<p>perceived conflicts to be identified and appropriately managed. The emphasis is on regular and active management, having robust systems and ensuring transparency.</p> <ul style="list-style-type: none">▶ Employees are encouraged to not only register gifts over the threshold, but to also declare lower value gifts such as chocolates or modest lunches. These declarations create greater transparency, reinforce the organisation’s commitment to integrity and accountability, and allow for more accurate reporting to Senior Management.▶ The organisation implemented an independent whistleblower service which is included in relevant training and policies. Fraud, Gifts & Hospitality, Declaration of Interest and Protected Disclosure policies are maintained and available for all staff to access.
Link to sources	SFO Media Release
Fraud Tags	Public Sector, Local Government, Administrative and Supportive services, Service Delivery and Operations, Finance, Bribery and Corruption.



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